

Message Text

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ORIGIN ARA-20

INFO OCT-01 ISO-00 EB-12 L-03 GSA-02 INT-08 SP-03 AID-05

NSC-07 RSC-01 CIEP-03 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 H-03 SSO-00 NSCE-00 USIE-00

INRE-00 DODE-00 PA-04 PRS-01 /144 R

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TO AMEMBASSY GEORGETOWN NIACT IMMEDIATE

INFO AMEMBASSY KINGSTON PRIORITY

AMCONSUL PARAMARIBO

AMEMBASSY PORT AU PRINCE

AMEMBASSY SANTO DOMINGO

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E.O. 11652:N/A

TAGS: EMIN, EINV, GY

SUBJECT: REYNOLDS-GOG NEGOTIATIONS

1. REYNOLDS HAS PREPARED THE FOLLOWING PRESS STATEMENT
OUTLINING ITS POSITION IN ITS DISPUTE WITH THE GOG:

2. BEGIN TEXT RICHMOND, VA.--REYNOLDS METALS COMPANY
ANNOUNCED TODAY THAT IT HAS INITIATED LEGAL ACTION IN
GUYANA CHALLENGING THE LEGALITY OF A NEW BAUXITE PRO-
DUCTION LEVY ENACTED THERE LAST WEEK WITH AN INITIAL
PAYMENT DEADLINE OF SATURDAY, OCTOBER 5.

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3. GUYANA, WHICH HAS REPEATEDLY STATED ITS INTENTION OF NATIONALIZING REYNOLDS OPERATIONS BY YEAR END, MADE THE LEVY RETROACTIVE TO JANUARY 1, WHICH WOULD BRING THE ESTIMATED AMOUNT OF TAXES AND ROYALTIES PAYABLE THROUGH DECEMBER TO MORE THAN DOLS 8.5 MILLION.

4. REYNOLDS SAID THAT IT COULD NOT, UNDER THE CIRCUMSTANCES, PAY THE NEW LEVY, WHICH IT DESCRIBES AS "EXPROPRIATORY." THE COMPANY SAID IT IS ADVISING THE GOVERNMENT OF GUYANA THAT IT IS PREPARED TO CONTINUE OPERATING IF THE GOVERNMENT WILL PERMIT IT TO DO SO.

5. A SPOKESMAN FOR REYNOLDS SAID, "THE COMPANY ALWAYS HAS HAD EXCELLENT RELATIONS WITH GUYANA AND REGRETS THE GOVERNMENT'S DECISION TO IMPOSE A TAX WHICH SIMPLY MAKES

CONTINUED OPERATIONS ECONOMICALLY IMPOSSIBLE."

6. REYNOLDS, DURING NEGOTIATIONS WHICH STARTED IN EARLY AUGUST, OFFERED A NEW TAX FORMULA WHICH WOULD HAVE INCREASED REVENUES TO MORE THAN DOLS 4 MILLION THIS YEAR WITH FURTHER INCREASES TIED TO THE PRICE OF ALUMINUM INGOT, SHOULD IT INCREASE. UNDER EXISTING CONTRACTS, WHICH WERE RATIFIED BY THE GUYANA PARLIAMENT IN 1969, REVENUES THIS YEAR WOULD HAVE BEEN ABOUT DOLS 1.25 MILLION.

7. THE REYNOLDS OFFER WAS CONTINGENT ON AGREEMENT BY THE GOVERNMENT THAT IT WOULD NOT INTERVENE IN THE COMPANY'S OPERATION FOR FIVE YEARS.

8. REYNOLDS HAS MORE THAN 1,000 EMPLOYEES IN GUYANA AND CONTRIBUTES MORE THAN DOLS 10 MILLION ANNUALLY TO THE ECONOMY IN PAYROLLS AND PURCHASES IN ADDITION TO TAXES.

9. ACCORDING TO THE COMPANY, GUYANA BAUXITE HAS BEEN PROVIDING ABOUT TEN PER CENT OF ITS NEEDS FOR ALUMINUM PRODUCTION AND IT CAN MAKE THIS UP FROM OTHER COMPANY SOURCES AND THROUGH PURCHASES FOR WHICH IT ALREADY HAS LIMITED OFFICIAL USE

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CONTRACTUAL ARRANGEMENTS. REYNOLDS ALSO MINES BAUXITE IN ARKANSAS, JAMAICA AND HAITI.

10. "IN VIEW OF THE HIGH COST OF MINING, PROCESSING AND TRANSPORTING GUYANA ORE, WE FELT OUR OFFER OF A FOURFOLD INCREASE IN TAX REVENUES FOR GUYANA WAS THE MOST THAT COULD BE MADE AND STILL MAINTAIN A VIABLE OPERATION," THE SPOKESMAN SAID. "THE TAX FORMULA

ENACTED IN GUYANA SETS THE PER TON RATE AT PRECISELY THE SAME DOLLAR FIGURE AS THAT IMPOSED RECENTLY IN JAMAICA. MUCH HIGHER COSTS ARE INVOLVED IN GUYANA THAN IN JAMAICA."

11. JAMAICA ESTABLISHED A RATE OF 7.5 PER CENT OF THE REALIZED PRICE OF ALUMINUM INGOT. BASED ON ALUMINA CONTENT IN THE ORE AND ON AN INGOT PRICE OF 32 CENTS PER POUND, THE RATE PER TON IS DOLS 11.16. THE NEW GUYANA RATE IMPOSES A TAX OF 5.911 PER CENT, BUT THE RICHER ALUMINA CONTENT ALSO RESULTS IN A DOLS 11.16 PER TON RATE. REYNOLDS IS PAYING THE JAMAICA TAX UNDER PROTEST AND HAS APPEALED TO THE INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES.

12. REYNOLDS ESTIMATES THE AMOUNT IT HAS INVESTED IN GUYANA AT MORE THAN DOLS 20 MILLION, A SUBSTANTIAL PORTION OF WHICH IS INSURED BY THE OVERSEAS PRIVATE INVESTMENT CORP. OF THE 930,000 TONS OF PRODUCTION PLANNED FOR 1974, APPROXIMATELY 615,000 TONS WERE OF METALLURGICAL GRADE AND THE REMAINING 315,000 TONS WERE SCHEDULED FOR THE CALCINED AND CHEMICAL MARKET.

13. THE INVESTMENT INCLUDES MINING EQUIPMENT AND FACILITIES AT KWAKWANI, ABOUT 140 MILES INLAND ON THE BERBICE RIVER, AND CALCINING FACILITIES AND OTHER EQUIPMENT AT EVERTON NEAR THE MOUTH OF THE RIVER. RIVER BARGES AND DOCK FACILITIES ARE ALSO INVOLVED. THE COMPANY HAS MINING LEASES ON 12,615 ACRES. ORE IS MINED AT KWAKWANI, BARGED TO EVERTON FOR DRYING OF THE METALLURGICAL GRADE AND CALCINING OF BAUXITE FOR OTHER USES. IT THEN IS SHIPPED TO TRINIDAD FOR TRANSSHIPMENT TO PLANTS IN THE U.S. AND OTHER COUNTRIES.

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